

SECTION XII--INTERPRETATIONS

INTERPRETATIONS

ACCOUNTING INTERPRETATION NO. 1

Subject: Encumbering

This interpretation is to clarify those items that may or may not be encumbered at the school's fiscal year-end.

SDCL 13-11-8 states:

The school board may by resolution at its first meeting in July encumber that portion of the unexpended budget from the prior fiscal year for which legal obligations were incurred but were not paid. The resolution shall state the budget account and amount encumbered. The business manager shall keep a detailed listing by payee and amount supporting such amount shown in the resolution.

The following "encumbrance" definition comes from the "School Accounting Manual":

Purchase orders, contracts and salary or other commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or actual liability is set up.

In accordance with SDCL 13-11-8 and the encumbrance definition the only items that can be encumbered are outstanding purchase orders for which a legal obligation exists, contracts and/or other legal obligations (provided a detailed listing is maintained) for which service has not been received either in part or in full as of the close of the fiscal year. At the time of receiving the contracted service or a fulfilled purchase order they then become payables and, thus cease to be encumbrances.

The entries to record encumbrances at the end of the fiscal year are as follows:

Encumbrances	xx	
Reserve for Encumbrances		xx

The Encumbrance account balance is then closed out to Fund Balance, along with Expenditures, at the end of the fiscal year, as follows:

Fund Balance	xx	
Encumbrances		xx
Expenditures		xx

The Reserve for Encumbrances account is not closed out; it is this account which is charged, by means of a separate Expenditures account (Prior Year Expenditures), with the actual expenditures when they occur.

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When goods or services are received in the subsequent fiscal year (e.g., FY2002) which were encumbered in the previous fiscal year (FY2001), the entry to record the expenditure is:

Prior Year (FY2001) Expenditures	xx	
Cash		xx

The specially designated Prior Year Expenditures account is used to differentiate this particular expenditure from the current year's expenditures.

After all orders encumbered in the previous year have been received and recorded, the Prior Year Expenditures account is closed out against the Reserve for Encumbrances account as follows:

Reserve for Encumbrances	xx	
Prior Year Expenditures		xx

If the actual cost of the goods or services encumbered exceeds the amount encumbered, the excess amount is debited to Fund Balance. If the actual cost is less than the amount encumbered, the difference is credited to Fund Balance.

An alternative to encumbering is to include the items not yet received into the next year's budget before final adoption. If the goods intended for the subsequent year are received prior to the start of the new year, the goods should be treated as inventory of supplies rather than expenditures. After the start of the new fiscal year, a credit should be made to inventory and debit entries should be made in the general journal to the appropriate expenditure categories. Remember that the journal entries to record the expenditures should also be posted in the expenditure budget record to the proper budget categories. (See Accounting Interpretation No. 14)

ACCOUNTING INTERPRETATION NO. 2

Subject: Transportation Costs

The following definition is given for the "Pupil Transportation Services" function in the School Accounting Manual (Account 2550):

Activities concerned with the conveyance of pupils to and from school, as provided by state law. Included are trips between home and school and trips to school activities.

The above function should include the cost of transportation for the students to and from school and instruction related field trips. These field trips must be connected with the instructional programs to be charged to this function.

All cocurricular transportation will be charged directly to the Cocurricular Activities function (Account 6510). The charges are to be prorated at the time of incurring the costs or the costs are to be prorated to the function at the end of a specified period of time not to exceed the end of the fiscal year, based upon miles driven for instructional purposes and those incurred for cocurricular activities or prorated to the function by use of another equitable method.

ACCOUNTING INTERPRETATION NO. 3

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Subject: Equipment and Repair of Equipment

The following is given as part of the Instruction function definition in the School Accounting Manual:

Included here are the activities of aids or assistance of any type (clerk, graders, teaching machines, etc.) which assist in the instruction process.

In accordance with this definition, all teaching machines purchased to be used in the instructional process are to be coded to the various applicable instructional functions. All other equipment items are to be coded to the supporting services functions. Teaching machines are those machines that must be used by the students to develop the skills necessary to successfully complete the course.

All equipment purchases with the exception of teaching machines are to be coded to the applicable supporting services functions, such as, Executive Administration Services, Office of the Principal Services, Fiscal Services, etc. Audio-visual equipment is to be coded to the educational Media Services function. Equipment not chargeable to an instructional or a specific supporting services function should be coded to the Operation and Maintenance of Plant Services function.

In accordance with the rationale for charging employee benefits to the function where the salary is coded, we must also code the repair of equipment (by sources outside the LEA) to the same function to which the equipment was coded when purchased.

The repair of equipment by personnel on the LEA payroll would be coded to the functional area which the person has as his main purpose for being employed by the school district. For example, a custodian's principal occupation is the operation and maintenance of plant; therefore, his salary and employee benefits would be coded to that function. An exception to this statement would be the case where an individual(s) is employed for the purpose of repairing and maintaining various pieces of equipment. In this case the person's salary and employee benefits are to be charged to the applicable functions where the equipment purchases were charged.

ACCOUNTING INTERPRETATION NO. 4

Subject: Instructional Programs versus Cocurricular Activities

The definitions for instruction and cocurricular activities as stated in the School Accounting Manual in Section XI are as follows:

Instruction includes the activities dealing directly with the teaching of pupils. Teaching may be provided for pupils in a school classroom in another location such as in a home or hospital and other learning situations, but not those involving cocurricular activities; it may also be provided through some other approved medium such as television, radio, telephone and correspondence.

Cocurricular activities (experiences) are comprised of the group of school-sponsored activities, under the guidance or supervision of qualified adults, designed to provide

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opportunities for pupils to participate in such experiences, public events or combination of these for such purposes as motivation, enjoyment and improvement of skills ...

Based upon the aforementioned definitions the instructional programs are to include all instructional courses including vocal and instrumental music, physical education (not including athletics), driver education, etc. Cocurricular activities are to include athletics, sponsors for extracurricular activities such as the various classes and clubs, and any general fund assistance to be given in support of the agency funds.

ACCOUNTING INTERPRETATION NO. 5

Subject: Accounting for Unemployment Insurance Benefits

This interpretation is intended to clarify accounting for unemployment insurance benefits.

The school has two primary methods of insuring for unemployment benefits:

- (1) Pay into the state system on a regular basis
- (2) Reimbursable or self-insured

Procedures for Option Number 1:

Treat the employer contribution as an employee benefit. The rate is determined by current statutes (SDCL 61-1 through 61-6) with payments made to the state on a quarterly basis. After three years the state will evaluate the experience of individual entities and make rate adjustments accordingly.

Procedures for Option Number 2:

When unemployment benefits are paid to former employees, the previous employer is billed (at the end of each quarter) by the state system for the actual benefits paid to the applicants.

Therefore, each LEA must estimate the amount of reserve it feels is necessary to cover potential unemployment claims. This amount must be set aside, either as a one time lump sum amount or through periodic payments from the funds which incur the salary expenditures.

This reserved amount may be accounted for as a reserve in the General Fund of the LEA or in a separate internal service fund, the Unemployment Insurance Fund, fund number 56. In either case, the creation of the reserved amount should be processed as an expenditure of the fund which would normally incur the related salary expenditures. When actual unemployment benefits are paid out of either the General Fund or the Unemployment Insurance Fund, those transactions would be processed as expenditures/expenses at that time as well.

Generally accepted accounting principals require that pending unemployment claims that exist at the end of the fiscal year that have been incurred but not yet reported to the LEA

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must be reported on the LEA's financial statements IF they can be reasonable estimated and it is probable that a claim will be asserted.

Employers choosing Option Number 1 may switch to Option Number 2 at the beginning of any taxable year, provided thirty days' notice is given to the state prior to the switch. Option Number 2 employers must remain reimbursable for a minimum of two years before switching. Employers switching from Option Number 2 to Option Number 1 may face a double liability for up to 18 months.

The object code for unemployment benefits paid to the state as insurance is 250. The object code for self-insurance claims is 654.

ACCOUNTING INTERPRETATION NO. 6

Subject: Interfund Transactions

Basically there are five (5) categories of interfund transactions.

- (1) **Quasi-External Transactions.** Transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the governmental unit (e.g., payments in lieu of taxes from an Enterprise Fund to the General Fund; Internal Service Fund billings to departments; routine employer contributions from the General Fund to a Pension Trust Fund; and routine service charges for inspection, engineering, utilities, or similar services provided by a department financed from one fund to a department financed from another fund) should be accounted for as revenues, expenditures, or expenses in the funds involved. These frequently give rise to short-term interfund debt reported in "Due to ____"/"Due from ____" accounts. **GASB 34 now refers to this type of activity as "reciprocal interfund activity" which will consist of interfund loans and interfund service provided and used. Interfund services provided and used are to be reported as external transactions, as revenue and expenditures/expenses.**
- (2) **Reimbursements.** Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from it which are properly applicable to another fund (e.g., an expenditure properly chargeable to a Special Revenue Fund was initially made from the General Fund, which is subsequently reimbursed) should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.
- (3) **Residual Equity Transfers.** Nonrecurring or nonroutine transfers of equity between funds (e.g., contribution of Enterprise Fund or Internal Service Fund capital by the General Fund, subsequent return of all or part of such contribution to the

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General Fund, and transfers of residual balances of discontinued funds to the General Fund or a Debt Service Fund). **This account will be replaced by accounts entitled "transfers in" or "transfers out" for entities implementing GASB 34. Transfers to an enterprise fund or internal service fund will be reported as a contributions revenue for transfers which involve capital assets.**

- (4) **Operating Transfers.** All other interfund transfers (e.g., legally authorized transfers from a fund receiving revenue to the fund through which the resources are to be expended, transfers of tax revenues from a Special Revenue Fund to a Debt Service Fund, transfers from the General Fund to a Special Revenue or Capital Projects Fund, operating subsidy transfers from the General or a Special Revenue Fund to an Enterprise Fund, and transfers from an Enterprise Fund other than payments in lieu of taxes to finance General Fund expenditures).

Interfund transactions not covered explicitly above should be reflected according to their substance and with due regard for adequate disclosure.

Interfund transfers should be distinguished from revenues, expenses, or expenditures in financial statements. Residual equity transfers should be reported as additions to or deductions from the beginning fund balance of governmental funds. Residual equity transfers to proprietary funds should be reported as additions to contributed capital; those from proprietary funds should be reported as reductions of retained earnings or contributed capital, as appropriate in the circumstances. Operating transfers should be reported in the "Other Financing Sources (Uses)" section in the statement of revenues, expenditures, and changes in fund balance (governmental funds) and in the "Operating Transfers" section in the statement of revenues, expenses, and changes in retained earnings (proprietary funds). Operating transfers thus affect the results of operations in both governmental and proprietary funds. **This account will be replaced by accounts entitled "transfers in" or "transfers out" for entities implementing GASB 34.**

- (5) **Interfund Loans (Advances).** Transfers between funds representing short-term loans should be reflected by "Due to _____ Fund" and "Due from _____ Fund" asset and liability accounts. Transfers representing a loan extending beyond one year should be reflected as an "Advance to _____ Fund" asset account from the fund loaning the cash and also reflect a fund balance reserve for the loan in the equity section of the balance sheet general ledger account. The fund receiving the long-term loan should reflect the liability account "Advance from _____ Fund." An example of a long-term loan or advance is the establishment of an Imprest Fund from the General Fund in the Agency Funds. **The accounting entries for interfund loans would be as follows: The fund loaning the money would debit "Due from _____ Fund" or "Advance to _____ Fund" and credit "cash". The fund receiving the loan would debit "cash" and credit**

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"Due to _____ Fund" or "Advances from _____ Fund". A transfer is not recorded for these interfund loans.

For entities implementing GASB 34, the interfund receivables and payables should be eliminated in the governmental and business type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business type activities, which should be presented as "Internal balances". Accounts receivable or payable from a fiduciary fund should instead be reported as receivables and payables to external parties in the statement of net assets.

ACCOUNTING INTERPRETATION NO. 7

Subject: Accounting for Long-Term Liabilities

General obligation bonds and other forms of long-term debt which are supported by general revenues are obligations of the LEA as a whole and not its individual funds. The amount of unmatured long-term debt should be recorded and accounted for in the General Long-Term Liability Accounts. Long-term debt of an enterprise fund which is to be retired from the operations of the enterprise fund is not recorded as a liability of the General Long-Term Liability Accounts. The obligation for general obligation bonds should never appear in more than one fund or account group.

Whenever general obligation debt is incurred, the liability is recorded in the General Long-Term Liability Accounts by a credit to accounts such as bonds payable, installment purchase contracts payable, or capital outlay certificates payable. The debits are Amount Available for Payment of Long-Term Liabilities and Amount to be Provided for Payment of Long-Term Liabilities.

After the debt has been recorded, transactions in the General Long-Term Liability Account Group parallel those in the appropriate Debt Service Fund if a Debt Service Fund is established. An increase in the Debt Service Fund balance is reflected in the General Long-Term Liability Accounts by a debit to Amount Available for Payment of Long-Term Liabilities and a credit to Amount to be Provided for Payment of Long-Term Liabilities.

As debts are retired by a Debt Service Fund, a simultaneous entry is made in the General Long-Term Liability Accounts debiting the account for the type of debt payable and crediting Amount Available for Payment of Long-Term Liabilities.

ACCOUNTING INTERPRETATION NO. 8

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Subject: Accounting for Capital Outlay Certificates

SDCL 13-16-6 requires that the payment of the principal and interest on Capital Outlay Certificates issued pursuant to 13-16-6.2 be paid from the Capital Outlay Fund. In addition SDCL 13-16-8 requires that money received from the sale of Capital Outlay Certificates be placed in the Capital Outlay Fund. This requires the sale and retirement of the certificates, as well as the construction, to be accounted for within the Capital Outlay Fund.

The following accounting procedures should be used:

- (1) When the certificates are sold, place the proceeds in the Capital Outlay Fund.
- (2) Record the amount of Debt Payable and the Amount to be Provided in the General Long-Term Liability Accounts.
- (3) Pay all construction costs from the Capital Outlay Fund.
- (4) Levy the taxes to retire the certificates in the Capital Outlay Fund, and receipt taxes into the Capital Outlay Fund.
- (5) Redeem the certificates from the Capital Outlay Fund and at the same time in the General Long-Term Liability Accounts reduce the Certificates Payable and the Amount to be Provided accounts.

An optional procedure for the construction of major capital facilities would be to replace the above procedures number one and three as follows:

- (1) When the certificates are sold, place the proceeds in a newly established Capital Projects Fund.
- (3) Pay all construction costs from the Capital Projects Fund.

An optional procedure to account for the repayment of the general long-term debt would be to replace the above procedures number four and five as follows:

- (4) Levy the taxes to retire the certificates in the Capital Outlay Fund, and receipt the taxes in the Capital Outlay Fund. Monthly make an operating transfer to a newly established Capital Outlay Certificate Debt Service Fund.
- (5) Redeem the certificates from the Debt Service Fund and at the same time in the General Long-Term Liability Accounts, reduce the certificates payable and the Amount to be Provided accounts.

There is no need for a separate receipt book, receipt journal, check register and general journal. All transactions should be accounted for within the existing accounting documents.

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ACCOUNTING INTERPRETATION NO. 9

Subject: Direct Expense Accounting for Food Service Fund

A method of getting all the direct expenses reported in the Food Service Fund would be to code and record each transaction properly during the accounting process. For example, if an employee works a certain percentage of his time in the food service area and in instruction, then his salary should be paid from both the General Fund and Food Service Fund in the same percentage that his time was spent. This procedure would apply to all other food service direct expenses which are currently paid by the General Fund.

The following is an acceptable alternative method which transfers the resources from the General Fund to the Food Service Fund.

- (1) Prepare a schedule of expenditures made by the General Fund which are directly related to the Food Service Program. This schedule must be supported by adequate documentation--time sheet, etc.
- (2) Based on the schedule, make the following General Journal entries in the respective fund's General Ledger.

GENERAL FUND

605	Transfers Out	xx	
601	General Fund Expenditures (Appropriate Object)		xx

FOOD SERVICE FUND

	Food Service Expenses (Appropriate Object)	xx	
305	Transfers In		xx

In addition to the entries in the General Ledger, the Expenditure Budget Record of the General Fund would require an adjustment to complete the recording of this transaction.

The transfers received and made should appear as separate items in each statement of revenue, expenditures, and transfers or equivalent financial statements. For the Food Service Fund, the transfers should appear on the income statement after net operating income or loss.

ACCOUNTING INTERPRETATION NO. 10

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Subject: Accounting for and Reporting Taxes Receivable, Tax Revenue and Estimated Uncollectible Taxes Receivable

Taxes receivable and tax revenue can be properly accounted for and reported as follows:

We suggest to maintain the governmental funds' general ledger on the cash basis throughout the year and adjust it to the modified accrual basis at June 30. The following entries should be made:

- | | | | |
|-----|------------------------|----|----|
| (a) | Cash | xx | |
| | Revenue, Current Taxes | | xx |

This entry is made each month based upon the current tax collections received and recorded in the cash receipts journal, beginning with the taxes received in February of each year.

- | | | | |
|-----|---------------------------|----|----|
| (b) | Taxes Receivable--Current | xx | |
| | Deferred Revenue | | xx |

This entry is made on June 30 of each year in the general journal and general ledger to record taxes receivable and deferred revenue. The amounts to record should be the difference between the taxes levied and the taxes collected in the period February 1 through June 30. This entry also could be made each month to maintain control on taxes receivable rather than waiting until June 30 to determine taxes receivable.

ACCOUNTING INTERPRETATION NO. 11

Subject: Accounting for and Reporting Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation, sick leave and sabbatical leave. The standards for recording and reporting come from the Governmental Accounting Standards Board (GASB) Statement No. 16.

The compensated absences liability should be calculated based on the pay or salary rates in effect at the balance sheet dates or as agreed upon based on contract, regulation or policy.

In addition, amounts should be accrued as a liability for salary-related payments associated with the payment of compensated absences, such as social security, using the rates in effect at the balance sheet date. The accrual should be made based on the entire liability for each type of compensated absence to which the salary-related payments apply.

Vacation Leave:

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Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

- (a) The employees' rights to receive compensation are attributable to services already rendered.
- (b) It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

An employer usually would accrue a liability for vacation leave and other compensated absences with similar characteristics that were earned but not used during the current or prior periods and for which employees can receive compensation in a future period. Benefits that have been earned but that are expected to lapse and thus not result in compensation to employees should not be accrued as a liability.

Sick Leave:

A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches:

- (a) A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees termination or retirement. Accrual for earned sick leave should be made only to the extent it is probable that the benefits will result in termination payments, rather than taken as absences due to illness or other contingencies and would generally be an estimate.
- (b) Alternatively, a governmental entity should estimate its accrued leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible or are expected to be eligible to receive termination payments.

Sabbatical Leave:

The accounting for sabbatical leave depends on whether the compensation during the sabbatical is for service during the period of the leave or instead for past service. A liability should be accrued during the period the employees earn the right to the leave if it is probable that the employer will compensate the employees for the benefits through paid time off or some other means.

Compensated Absences in Governmental Funds:

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If the conditions above are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with available expendable financial resources.

Because governmental fund balance sheets do not reflect long-term liabilities, only the current portion of the entire liability should be reported in the specific fund. The current portion is the amount left unpaid at the end of the reporting period that would normally be liquidated with available expendable resources. The remainder of the liability should be reported in the General Long-Term Liability Accounts.

Compensated Absences in Proprietary Funds:

If the conditions above are met, a fund liability should be recorded for the entire liability. The amount to be expensed during the year should be the amount of leave earned during the year.

The portion of expenditures in governmental funds and/or expenses in proprietary funds to be recorded for the year as salaries and wages which are attributable to compensated absences should be adjusted for leave taken which was available from prior years' employee leave earnings, and prior period fund balances in governmental funds and retained earnings balances in proprietary funds should be adjusted to reflect the reporting principles used in the current year.

In summarization, the following steps need to be executed to record compensated absences:

- (1) The leave policies must be reviewed to determine if the conditions above are all met.
- (2) If a liability exists for compensated absences, the liability must be inventoried at the end of each accounting period, in hours by employee by fund.
- (3) The amount of the liability must be determined by multiplying the hours of accumulated unused leave by each employee's current hourly salary.
- (4) A determination must be made relative to in which funds and functions the liability is applicable (i.e., governmental funds or proprietary funds).
- (5) For liabilities applicable to governmental funds:
 - (i) The portion of the liability which is current must be calculated and recorded in the proper fund as follows:

Compensated Absence Salary	
Expenditure	xx
Accrued Wages Payable	xx

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- (ii) The balance of the liability should be reported in the General Long-Term Liability Accounts as follows:

Amount to be provided for		
payment of Long-Term Liabilities	xx	
Other Long-Term Liabilities Payable		xx

- (6) For liabilities applicable to proprietary funds the liability should be recorded as follows:

Compensated Absence Salary Expense	xx	
Accrued Wages Payable		xx

- (7) The total salary expenditures or expenses, as appropriate, must be adjusted for leave taken which was earned in previous periods by debiting Fund Balance/Retained Earnings and crediting Expenditures/Expenses in the proper amount.

ACCOUNTING INTERPRETATION NO. 12

Subject: Accounting for Accounts Payable in Governmental Funds at June 30

The School Accounting Manual defines accounts payable as "liabilities on open account owing to private persons, firms or corporations for goods and services received."

In governmental funds (e.g., General Fund, Special Revenue Funds, Capital Projects Funds) the recording of accounts payable liabilities at June 30 is influenced by the nature of the liabilities being recorded. If the liability to be recorded is for goods or services already received and utilized, the entry to record accounts payable at June 30 on a generally accepted accounting principle (GAAP) basis is:

Expenditures	xx	
Accounts Payable		xx

If the liability to be recorded is for goods received but which will not be utilized or consumed until the following year (e.g., textbooks, cleaning supplies, paper goods), the entry to record accounts payable at June 30 is:

Inventory (Account No. 170)	xx	
Accounts Payable		xx

Entries into the expenditure budget record to recognize budgetary expenditures are dependent upon the basis upon which the budget was prepared. If the budget is prepared on a GAAP basis,

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budgetary expenditures should be recorded at the same time as the expenditures account is debited in the general ledger. If the budget is prepared on a cash basis, budgetary expenditures should be recorded at the time the cash account is credited in the general ledger.

ACCOUNTING INTERPRETATION NO. 13

Subject: Purchases from Capital Outlay Fund

Purchases from the Capital Outlay Fund are guided primarily by SDCL 13-16-6 and SDCL 13-13-37. SDCL 13-16-6 states:

The capital outlay fund of the school district is a fund provided by law to meet expenditures of which result in the acquisition of or lease of or additions to real property, plant, or equipment. Such an expenditure shall be for land, existing facilities, improvement of grounds, construction of facilities, additions to facilities, remodeling of facilities, or for the purchase or lease of equipment. It may also be used for installment or lease-purchase payments for the purchase of real property, plant or equipment, which have a contracted terminal date not exceeding twenty years from the date of the installment contract or lease-purchase and for the payment of the principal of and interest on capital outlay certificates issued pursuant to SDCL 13-16-6.2. ...

Any purchase of one thousand dollars or less may be paid out of the general fund. The total accumulated unpaid principal balances of such installment contracts and lease-purchase and the outstanding principal amounts of such capital outlay certificates may not exceed three percent of the taxable valuation. The school district shall provide a sufficient levy each year under the provisions of § 13-16-7 to meet the annual installment contract, lease-purchase and capital outlay certificate payments, including interest.

A school district which contracts its student transportation may expend from the capital outlay fund an amount not to exceed fifteen percent of the contract amount.

The capital outlay fund may be used to purchase textbooks, instructional software and warranties.

SDCL 13-13-37 states, "The total general fund expenditures may not include any capital outlay fund expenditures as defined in SDCL 13-16-6, except for any school district that receives money under Public Law 81-874. However, no school district that receives money under Public Law 81-874 may expend general fund money for new construction."

Equipment to be purchased from the Capital Outlay Fund is defined as equipment which meets the definition in Section II of the School Accounting Manual (also see listings) and which is **\$1,000** or more per invoice per asset type. Therefore, purchases of equipment per invoice per asset type exceeding **\$1,000** may not be purchased from the General Fund, but equipment less than **\$1,000** may be purchased from either the General Fund or Capital Outlay Fund.

Minor federal grant program monies may be spent out of the General Fund for equipment.

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All purchases from the Capital Outlay Fund are not necessarily capitalized as some purchases may be less than the amount capitalized for capital assets as determined by the school's capitalization policy.

ACCOUNTING INTERPRETATION NO. 14

Subject: Accounting for Leases

Lease-purchase agreements may be in the form of capital or operating leases. A capital lease is, for the most part, viewed as an installment purchase of property rather than the rental of property. An operating lease does not involve the purchase of property and payments represent the rental expenditures. Capital leases exist if ANY of the following conditions are met.

- (a) The lease transfers ownership of the property to the lessee by the end of the lease term.
- (b) The lease contains a bargain purchase option.
- (c) The lease term is equal to 75% or more of the estimated economic life of the leased property.
- (d) The sum of the principal lease payments equal 90% of the fair value of the asset.

Once it has been determined that a capital lease exists, then the following entries would be required:

- | | | | |
|----|--------------------------------------|----|----|
| 1. | Equipment (Account No. 204) | xx | |
| | Investments in General Capital | | |
| | Assets (Account No. 705) | | xx |

To capitalize the present value of the minimum lease payments in the General Capital Asset Accounts.

- | | | | |
|----|--|----|----|
| 2. | Expenditure- (Applicable Department) | xx | |
| | Other Financing Source (Account 5124) | | xx |

At the start of the lease, the present value of the minimum lease payments must be recognized as an expenditure against the budget and as an other financing source. The expenditure category used should relate to the type of asset acquired.

- | | | | |
|----|--|----|----|
| 3. | Amount to be Provided (Account No. 302) | xx | |
| | Other Long-Term Debt (Account No. 509) | | xx |

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This entry is necessary to recognize the liability in the General Long-Term Liability Accounts. The amount capitalized should be the present value of the minimum lease payments.

4.	Expenditure (Account No. 5000)	xx	
	Cash		xx

To record the periodic payments in future periods. The expenditure account to recognize these payments to service the debt should be account "5000 Debt Services."

If the lease is an operating lease, the lease would be recorded as follows:

Expenditures - Rent	xx	
Cash (Vouchers Payable)		xx

To record the operating lease at the inception of the lease.

ACCOUNTING INTERPRETATION NO. 15

Subject: Accounting for Grant Revenue

GASB 33 establishes accounting and financial reporting standards for shared grant nonexchange revenues. In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. There are two classes of nonexchange transactions which relate to grants:

- 1. Government-Mandated Nonexchange Transactions**
- 2. Voluntary Nonexchange Transactions**

On these types of nonexchange transactions, revenues and expenditures should be recorded when all applicable grant eligibility requirements are met. For transactions in which the provider requires the recipient to use the resources in or beginning in the following period, resources provided before that period should be recognized as advances by the providers and deferred revenues by the recipients.

Federal and state grants are usually either nonreimbursable grants or expenditure-driven grants. Nonreimbursable grants are usually received up front and recorded as revenue at the time of receipt and not contingent on incurring an expenditure. Expenditure-driven grants are nonexchange transactions which require revenue to be recorded after the expenditures are incurred and are equal to the expenditures.

The following entry would be used to record the nonreimbursable type grants: (Bankhead Jones, PILT)

1.	Cash	xx	
	Revenue		xx

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To record the revenue collected as it is receipted.

This entry is straightforward with the exception of **Impact Aid monies**. State law requires **Impact Aid dollars** to be receipted into a separate Impact Aid Fund. Money is transferred from the Impact Aid Fund to other funds at the discretion of the governing body. Revenue recognition occurs when money is deposited into the Impact Aid Fund. **Special Education Impact Aid dollars are to be receipted directly into the Special Education Fund.**

If Impact Aid dollars are involved, the following entries would be recorded:

1.	Impact Aid Fund - Cash	xx	
	Revenue		xx

To record the collection of **Impact Aid dollars**.

2.	Impact Aid Fund - Transfer Out	xx	
	Cash		xx
	Other Fund - Cash	xx	
	Transfer In		xx

To record the transfer of cash from the **Impact Aid Fund** to other funds.

Note: The Impact Aid Fund will be accounted for as a Special Revenue Fund under GASB 34.

Expenditure driven grants should recognize revenue when the associated expenditure is incurred. For grants where the cash is received up-front the entries would be as follows:

1.	Cash	xx	
	Deferred Revenue		xx

To record the cash for a grant in which no expenditures have yet been incurred.

2.	Expenditure	xx	
	Cash		xx
	Deferred Revenue	xx	
	Revenue		xx

To record grant expenditure and to adjust the revenue to record that portion of deferred revenue which has been earned by incurring the expenditure.

Certain grant periods occur during the summer months causing a grant to fall into two school fiscal years. To properly record grants such as these a school should recognize revenues and expenditures for only that portion of the grant that was incurred through June 30. The remainder

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of the grant when received up-front will be recorded as a balance to the deferred revenue account.

Expenditure-driven grants that operate on a reimbursement basis should be recorded as follows:

1.	Expenditure	xx	
	Cash		xx
	Receivable	xx	
	Revenue		xx

To record grant expenditure and to record grant revenue and a receivable from the granting agency equal to the expenditures incurred.

The preceding was based on the assumption that the grant expenditures occurred prior to June 30. Therefore, the revenue is also recognized and a receivable is established and will be reported at year end in situations where reimbursements are received in the subsequent fiscal year.

The schedule of federal financial assistance should be prepared to reflect the federal share of grant expenditures on the same basis of accounting as the financial statements, unless footnoted to the contrary.

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